

# DBL MANGLOOR HIGHWAYS PRIVATE LIMITED

July 13, 2022

To

BSE Limited

P.J. Towers, Dalal Street,  
Mumbai - 400 001

Ref. No.

Scrip Code 973874; Scrip ID: 645DBL35; ISIN:  
INE00PT07014 (Series -A)

Scrip Code 973875; Scrip ID: 645DBLM35; ISIN:  
INE00PT07022 (Series -B)

**Sub: Intimation pursuant to regulation 51 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015**

Dear Sirs,

Pursuant to Regulation 51 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, you are requested to note the followings:

- i. Credit rating of the Company has been upgraded from AA+(Positive) to AAA(Stable); and
- ii. consequently, the interest rate has been reduced by 22 bps from 6.45% to 6.23% p.a. w.e.f. 12<sup>th</sup> July 2022.

Copy of the credit rating letter issued by India Ratings & Research Private Limited is attached for ready reference.

This is for your information and records please.

Thanking you

**Yours faithfully,**

**For DBL Mangloor Highways Private Limited**

**Gaurav Kumar**

**Company Secretary**

## India Ratings Upgrades DBL Mangloor Highways' NCDs to 'IND AAA'/Stable; Withdraws Term Loan Rating

Jul 11, 2022 | Infrastructure

India Ratings and Research (Ind-Ra) has taken the following rating actions on DBL Mangloor Highways Private Limited's (DMHPL) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR2,822.9	IND AAA/Stable	Upgraded
Rupee term loan (RTL) <sup>§</sup>	-	-	December 2033	INR2,630.0	WD	Withdrawn

<sup>§</sup>Ind-Ra has withdrawn the rating as the facility has been paid in full; the agency has received the no-dues certificate

\*Details in annexure

**Analytical Approach:** Ind-Ra continues to review DMHPL's ratings on a standalone basis, considering the rated debt only. Therefore, any sponsor-injected funds, other than plain-vanilla equity, in the project are considered equity-like instruments, such as sponsor-injected funds of INR460.7 million in the form of optionally convertible debentures as on 31 March 2022. Any deviation in the treatment of these instruments would affect the ratings.

The rating factors in the acquisition of the project by Cube Highways and Infrastructure III Pte Ltd (Cube Highways; new sponsor) in December 2021, the refinancing of the existing RTL with the rated NCDs at a significantly lower interest rate fixed for the first two years and the upfront creation of two quarters of debt service reserve (DSR) and Cube Highways's

strong executional and operational capabilities in managing road assets. The new sponsor has undertaken to meet any cost overruns and fund any shortfall in annuity payouts by the authority due to delays in achieving the commercial operations date (COD).

The upgrade reflects the timely receipt of the first annuity by end-June 2022 without any deductions, availability of adequate liquidity including the debt service reserve (DSR). The rating takes comfort from the availability-based stable cash flows from the strong counterparty, National Highways Authority of India (NHAI; 'IND AAA/Stable'), inherent features of the hybrid annuity mode (HAM) project and the project's comfortable coverage ratios.

## Key Rating Drivers

**Low Revenue Risk Profile; Support from Strong Counterparty:** The rating factors in contractual payments from a strong counterparty NHAI post the provisional COD; the first semi-annual annuity was received at end-June 2022 without any material deductions. DMHPL will have three revenue streams adjusted for the Price Index Multiple, namely: i) 60% of the bid project cost spread over 15 years after the COD; ii) interest on the balance annuity payments on a reducing balance basis at bank rate plus 300bp, and iii) the first year's operation and maintenance (O&M) plus inflation bid quote of INR30 million per annum. The Price Index Multiple comprises 70% of the Wholesale Price Index and 30% of the Consumer Price Index.

While the annuity payments are subject to variations in the inflation indices, any shortfall in the forthcoming annuity payments may arise due to deductions for non-conformance to the maintenance requirements during the concession term. However, the satisfactory operating track record of Cube Highways in the highway sector, and the low complexity feature of the O&M model lends strength to the rating.

**Timely Project Completion, Final COD subject to descoping approval from NHAI:** The project was awarded provisional COD on 15 December 2021 for 47.4km (96%) of the total project stretch of 48.9km, compared to the scheduled COD of 20 December 2021 adjusted for COVID-19 led extension. As on 30 June 2022, all works under Punchlist A & B, except for the works that have been recommended for descoping, were completed. The NHAI project director (PD) has recommended a descoping of works (including bus shelter, toilet blocks and 1.5 kms service road) amounting to INR67.5 million due to the unavailability of the right of way (RoW). The first annuity received has been adjusted for the descoping as recommended by NHAI PD. The balance work, if required to be carried out post the availability of the necessary ROW from NHAI, will fall under the positive change of scope (CoS). The final COD will be awarded once the descoping is approved by NHAI.

**Strong Sponsors with Demonstrated Track Record:** DBL entered into a share purchase agreement (SPA) with Cube Highways for DMHPL in 2019, wherein DBL will sell its entire shareholding in DMHPL to Cube Highways in a phased manner, subject to the shareholding transfer restrictions set out in the concession agreement, and various regulatory and lender approvals. Cube Highways acquired 49% from DBL in December 2021 and the balance will be acquired by end-July 2022. Cube Highways has also provided an undertaking to meet any cost overruns in achieving COD and fund any shortfall in annuity payouts by the authority due to delays in achieving COD.

Cube Highways, is promoted by I-Squared Capital (ISQ) and Abu Dhabi Investment Authority. ISQ is an independent global infrastructure fund with focus on energy, utility and transport sectors in the US, Europe and select high growth economies such as China and India. and Abu Dhabi Investment Authority is a sovereign wealth fund owned by Emirate of Abu Dhabi, founded for investing funds on behalf of the government of Abu Dhabi. ISQ's overall assets under management amounted to USD28 billion as of December 2021, spread across various asset classes including energy vertical, utilities, telecom, social infrastructure and transport vertical spread across 36 countries. ISQ, through Cube Highways, has a portfolio of 28 projects with a total length of 8,900 lane km of projects in India (these include projects wherein deals have been signed and are under closing).

**Minimal O&M Risk:** DMHPL's O&M activities will be handled internally by Cube Highways, and Ind-Ra has relied on the sponsor's capabilities for O&M. The project stretch comprises a bituminous pavement and the routine O&M costs are slightly higher than those of Ind-Ra-rated peers. As per the management, such practice helps saving cost during major maintenance (MM).

There are two MM cycles scheduled during the concession period, first in FY28-FY29 and second in FY35-FY36. The MM costs assumed in Ind-Ra's base case assumptions are similar to agency-rated bitumen road peers. However, according to the Schedule-K of the concession agreement, the repair & maintenance work (for rectification of defects) needs to be incurred within 180 days of the roughness index of the project stretch exceeding 2,750mm for every stretch of 1km (threshold value), the road surface for flexible pavement is within the stipulated levels under the concession agreement, based on the latest road test reports of DMHPL dated August 2021, conducted in the presence of an independent engineer.

**Liquidity Indicator - Adequate:** The cash accruals of the company are adequate to service the debt obligations at an average debt service coverage ratio (DSCR) of over 1.35x over the loan tenor for the NCD structure. Furthermore, a DSR of two quarters of debt obligations has been created based on the NCD terms. The company had liquidity of INR721.9 million as on 30 June 2022 comprising INR120.5 million for DSR, INR189.9 million reserved for six months of debt obligations and O&M expenses and a surplus cash of INR411.6 million.

The project is exposed to performance-related annuity deductions; however, Ind-Ra derives sufficient comfort from the strong credit profile, robust operational history of the sponsor to ensure no material delay or deductions in upcoming annuities from NHAI and the availability of adequate liquidity.

**Suitable Debt Structure of NCDs:** The company has refinanced the RTL with the rated NCDs, including a top-up debt of INR192 million for DSR creation. The principal repayment obligations comprise 27 unstructured half-yearly payments and the loan amortisation schedule is broadly in line with the annuity payment receipts with a 60-day cushion between the annuity receipt and debt service date. The project loan shall have a tail period of two annuities - the difference between the loan maturity and the concession maturity. Also, the financing documents stipulate a minimum DSCR of 1.10x post the COD, a breach of which shall lead to the discontinuation of restricted payments, until cured. The structure also stipulates a put/call option at the end of two years from the date of the allotment of NCDs. The refinancing risk of the project due to the presence of put option is largely mitigated, given the stable stream of cash flows, the availability of a three-month notice period for the repayment post exercising the put option by NCD lenders, the presence of reputed sponsor and healthy coverages.

Furthermore, as the rate of interest on the NCDs is fixed for the first two years post disbursement, Ind-Ra expects the near-term interest rate risk to be substantially mitigated. The coupon rate is fixed for the first two years and subject to change thereafter, as per a mutual agreement between the issuer and debenture holders.

## Rating Sensitivities

**Negative:** Future developments that could, individually or collectively, lead to a negative rating action are:

- significant delays or deduction in annuities resulting in a weakening of the coverages, with the average DSCR reducing below 1.15x;
- the absence of timely sponsor support till the achievement of the final COD;
- the non-creation/depletion of the DSR; and
- deterioration in the credit profile of NHAI.

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on DMHPL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

## Company Profile

DMHPL has been granted a 17-year concession (including construction period of 730 days) by NHAI for the four-laning of 48.963km of Mangalore to Telangana/Maharashtra border section of National Highway-161 in the state of Telangana, on a design, build, operate and transfer basis under the Bharatmala Pariyojana scheme on hybrid annuity model. NHAI shall pay a lump sum, linked-to-inflation amount to DMHPL in the form of 30 semi-annual annuities after the project achieves COD. The estimated project cost of INR7,460 million is to be funded by NHAI (INR3,963.4 million, including the inflation component of INR219.4 million), the rated RTL INR2,630 million and the balance to be paid by the promoter. DMHPL was 49%-owned by Cube Highways and balance 51% was owned by DBL as on 31 December 2021.

### FINANCIAL SUMMARY:

Particulars (INR million)	FY22	FY21
Revenue from operations*	890.1	2,583.1
Other income	0.48	9.4
Profit after tax	-169.0	-190.3
Cash and cash equivalents	335.01	38.52
Source: DMHPL		
*Includes contract receipts as per IND-AS accounting		

## Solicitation Disclosures

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	25 March 2022	21 March 2022	18 January 2022	7 April 2021	14 April 2020
RTL	Long-term	INR2,630.0	WD	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND A/Positive	IND A-/Stable
NCDs	Long-term	INR2,822.9	IND AAA/Stable	IND AA+/Positive	Provisional IND AA+/Positive	Provisional IND AA+/Positive	-	-

## Annexure

### NCDs

ISIN	Date of Issue	Coupon Rate*	Maturity date	Size of Issue (million)	Rating/Outlook
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ISIN	Date of Issue	Coupon Rate*	Maturity date	Size of Issue (million)	Rating/Outlook
INE00PT07014 (Series A)	29 March 2022	6.45% p.a.	31 August 2035	INR2,630.0	IND AAA/Stable
INE00PT07022 (Series B)	29 March 2022	6.45% p.a.	31 August 2035	INR192.9	IND AAA/Stable
<b>Total</b>	-	-	-	<b>INR2,822.9</b>	-

Key Financial Covenants (NCDs)	DMHPL
Minimum annual DSCR over debt tenor	1.10x (to be tested on annual basis)
Leverage	No further debt to be raised by the issuer without an approval from the lenders/NCD holders
Restricted payment conditions (RPC)	Surplus cash upstreaming to the sponsors is allowed subject to the fulfilment of following cr <ul style="list-style-type: none"> <li>· minimum rating of AA is maintained</li> <li>· the stipulated DSR and MM reserve are available</li> <li>· no breach in financial covenants or (potential) event of default subsists</li> <li>· repayment of the facility has commenced</li> </ul>
Cash trap mechanism	In case the financial covenant trigger is hit (i.e. the DSCR falls below 1.10x), the surplus cas  Upon the occurrence of RPC trigger, the issuer will be able to access the funds only after de

## Bank wise Facilities Details

Click here to see the details

## Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low

For details on the complexity level of the instrument, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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